Insight

Obamacare and the Labor Market

BEN GITIS | MAY 2, 2017

Executive Summary

- Reports have raised concerns about the economic and labor market effects of repealing the Affordable Care Act (ACA), largely on the grounds that reduced federal spending would “cost jobs.”
- The argument that eliminating the ACA will shrink the economy and cost jobs is baseless, as it ignores the other side of the equation: federal spending means higher taxes out of taxpayers’ pockets.
- The evidence continues to accumulate that repealing the ACA would raise economic growth, increase the labor force, and eliminate the harmful effects on small businesses and their workers.

This year reports have raised concerns about the economic and labor market effects of repealing ACA. Specifically, a January study from the George Washington University (GWU) Milken Institute School of Public Health concluded that repealing the ACA without replacing it would cost 3 million jobs and reduce output by $1.5 trillion between 2019 and 2023. More recently, a March paper from the Center for American Progress (CAP) used the results from the GWU report to conclude that repealing the ACA and replacing it with the American Health Care Act (AHCA) would cost 1.8 million jobs. These studies clearly have alarming conclusions. Fortunately for Americans, these studies would also fail introductory economics, as they ignore simple economic facts and the well-documented ways that repealing the ACA will increase employment and economic growth.

The argument underlying both the GWU and CAP studies is simple: more government spending equates to faster economic growth and more jobs. In particular, the GWU report analyzes the impact of the inherent reduction in government spending that would occur from repealing the ACA’s Medicaid expansions and health insurance premium subsidies. With less government spending on health care, there will be less spending on hospitals, doctors, medicine, etc. As a result, the industry will not be able to support as many workers, and the loss of jobs will reverberate throughout the economy as health care workers spend less on other goods and services, reducing broader economic growth and costing jobs in other industries as well.

The problem with GWU’s analysis? It only looks at one side of the equation. Specifically, the more federal dollars that are spent on health care must come from somewhere, and they either come from higher taxes on the public or from borrowing, which just means the public will face higher taxes in the future. So, for every dollar the federal government spends there is one less dollar for a taxpayer to spend. As a result, the net effect of the changes in government spending on economic activity and employment is generally quite small. For instance, in an American Action Forum (AAF) report, Robert Book looked at the economic effects of the ACA’s Medicaid expansion by taking into account both the increase in spending and increase in taxes and borrowing associated with the policy. He found that the negative effects of the higher taxes and borrowing more than cancelled out the positive effects of the additional spending, and projected that expanding Medicaid in every state would, on net, result in a loss of $174 billion in economic output and 206,000 fewer full-time-equivalent jobs.

Likewise, the reduction in federal spending from repealing the ACA means that less funding has to come from taxpayers. The AHCA, for instance, would reduce taxes by $0.9 trillion, which would surely offset the loss of economic activity associated with repealing the Medicaid expansion and reducing the health insurance premium subsidies.

More importantly, the GWU and CAP studies blatantly ignore the Congressional Budget Office's (CBO) assessment that repealing the ACA would *increase* the nation's labor supply, and as a result, *increase* overall economic growth. The ACA's Medicaid expansion and premium subsidies mean that many low-income Americans no longer have to work in order to obtain health insurance, causing the nation's labor supply to decline. Consequently, according to the CBO, repealing the ACA would increase the labor force by between 0.8 percent and 0.9 percent, which comes out to an additional 2 million full-time-equivalent workers. The CBO estimated that this in turn would increase economic output by 0.7 percent on average.

There is also evidence that the countless mandates and regulations imposed by the ACA have been harming small businesses and their employees. In particular, AAF found that among small businesses, these mandates and regulations have led to at least $19 billion in lost wages, 10,000 fewer establishments, and nearly 300,000 lost jobs.

The argument that eliminating the ACA will shrink the economy and cost jobs is baseless, as it ignores the economic reality that federal spending comes right out of taxpayers' pockets. Meanwhile, the evidence continues to pile on that repealing the ACA would raise economic growth, increase the labor force, and eliminate the harmful effects on small businesses and their workers. Indeed, the case remains clear that repealing the ACA would improve the labor market and the broader economy.